

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE ADJUSTMENT OF RATES OF )  
THE PLEASANT VIEW SUBDIVISION ) CASE NO. 8253

O R D E R

On June 7, 1981, Pleasant View Subdivision ("Pleasant View") filed its notice seeking authority to increase the rate it charges for sewage service rendered to its customers from \$8.00 per month to \$12.00 per month. Pleasant View stated that the increase was necessary because of its continued operating losses and its inability to accumulate the escrow fund required by its third-party agreement with Henderson Home Federal Savings & Loan.

In order to determine the reasonableness of this request, a public hearing was held in the Commission's offices in Frankfort, Kentucky, on October 13, 1981, with the Consumer Protection Division of the Attorney General's Office and residents of Pleasant View Subdivision, represented by counsel, being present and intervening in the matter. With the filing of additional information requested at the hearing, the entire matter is now considered to be submitted for final determination by the Commission.

Test Period

The Commission has adopted the 12 months ending June 30, 1981, as its test period for the purpose of determining the

reasonableness of the proposed rate. Pro forma adjustments have been included where found to be appropriate and reasonable.

#### Revenues and Expenses

Pleasant View proposed several pro forma adjustments to its income statement which the Commission has accepted with the following exceptions:

##### Maintenance Expense

Pleasant View included in its test period operating expenses \$3,929 for maintenance and repair of the sewer system. From the testimony of Pleasant View's witness, Mrs. Schmidt, and analysis of its maintenance invoices and past operations of the utility, the Commission has determined that \$2,413 of this expense should have been amortized over a 5-year period and has, therefore, reduced this expense by \$1,932.

##### Customer Billing and Collecting

Pleasant View is currently paying as a collection fee 25 percent of the revenues collected. Pleasant View provides, without charge to its collecting agent, stamps, stationery and any other items which are necessary for the mailing of its bills.<sup>(1)</sup> Further, the collection fee is being paid to the son of Pleasant View's owner.<sup>(2)</sup> Pleasant View charges a flat rate for its sewage service, which requires little or no computation of the monthly bills, the supplies necessary for handling the

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<sup>(1)</sup> Testimony of Mrs. Schmidt and Mr. Watkins.

<sup>(2)</sup> Ibid.

mailing of the bills are supplied to the collecting agent without charge and as this appears to be a less than arm's length transaction, the Commission is of the opinion that a charge of \$1.00 per bill is an adequate allowance to the collecting agent and a reasonable expense for the ratepayers of Pleasant View to bear. In support of its position, the Commission made a random survey of the customer accounting and collecting costs of 40 of the 219 sewer utilities under its jurisdiction. This survey shows that the average customer accounting and collecting cost of these 40 utilities was approximately \$.69 per customer per month. Adjusting the 1980 average for cumulative inflation based on the change in the Consumer Price Index-W from December 1979, through September 1981, produces an adjusted average cost of approximately \$.84 per customer per month. Therefore, the Commission is of the opinion that the allowance of \$1.00 per customer per month is a fair cost to be charged to the ratepayer and represents an achievable cost reduction for Pleasant View to maintain. Therefore, the Commission has reduced this expense by \$2,311.<sup>(3)</sup> Pleasant View's adjusted operating revenues and expenses for the test period are as follows:

	<u>Pleasant View Pro Forma</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 9,280	\$ -0-	\$ 9,280
Operating Expenses	16,079	(4,243)	11,836
Net Operating Loss	<u>\$(6,799)</u>	<u>\$ 4,243</u>	<u>\$(2,556)</u>

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(3) (Number of customers on which the requested level of revenue is based) 97 x 12 mos. x \$1 = \$1,164. Pro forma expense, \$3,475 less \$1,164 = \$2,311.

### Revenue Requirements

The Commission finds the net operating loss to be unjust, unfair and unreasonable. The Commission has used the operating ratio method as the basis in determining sewer rates in the past and has found it to be a fair and reasonable method to both the utility and its customers. The operating ratio method as used by the Commission is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses (net of interest expense)} + \text{depreciation} + \text{taxes}}{\text{Operating Revenues}}$$

The Commission is of the opinion that a .88 ratio is a fair, just and reasonable operating ratio in that it will enable Pleasant View to pay its operating expenses and provide an adequate debt service coverage with a reasonable return to the plant's owner. Therefore, the Commission finds that Pleasant View is entitled to adjust its rate to produce additional revenues of \$4,618.

### Summary

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

- (1) Pleasant View has filed a third-party beneficiary agreement in connection with this proceeding.
- (2) Under Section 13, the beneficiary agreement automatically terminated when Pleasant View came under the regulation of this Commission and as a result Pleasant View does not have a valid third-party beneficiary agreement.
- (3) Pleasant View's adjusted net operating loss is clearly unfair, unjust and unreasonable.

(4) The rate proposed by Pleasant View, attached hereto and made a part hereof, is the fair, just and reasonable rate to be charged by Pleasant View for sewage services rendered to its customers on and after the date of this Order and should produce revenue in the amount of \$13,898 which will allow Pleasant View to cover its adjusted operating expenses, including income taxes of \$402, and provide a reasonable surplus for equity growth.

(5) Pleasant View has been providing space in its sewer facilities for use as a dark room in exchange for the provision of certain maintenance services to Pleasant View.

(6) These maintenance services will now be compensated by Pleasant View through an annual salary.

(7) Pleasant View should no longer pass on to its customers any expenses incurred from the operation of the dark room or for any other purpose which is not directly related to the business of providing sewage services to its customers.

IT IS THEREFORE ORDERED that Pleasant View Subdivision Sewage Treatment Plant shall obtain a valid third-party beneficiary agreement and file a copy of the agreement with this Commission within 30 days of the date of this Order.

IT IS FURTHER ORDERED that the rate in Appendix A is the fair, just and reasonable rate to be charged by Pleasant View Subdivision Sewage Treatment Plant for sewage services rendered to its customers on and after November 27, 1981.

IT IS FURTHER ORDERED that Pleasant View Subdivision Sewage Treatment Plant shall file with this Commission, within 30 days of the date of this Order, its revised tariff setting

forth the rate approved herein and all rules and regulations governing the provision of sewage service.

Done at Frankfort, Kentucky, this 30th day of November 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs  
Chairman

Katharine Randall  
Vice Chairman

Jim Caruana  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8253 DATED NOVEMBER 30,  
1981.

The following rate is prescribed for all customers of Pleasant View Subdivision Sewage Treatment Plant. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to November 27, 1981.

CUSTOMER CATEGORY

MONTHLY RATE

Residential

\$12.00